STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Medical Center of Louisiana at New Orleans
Louisiana State University
Health Sciences Center
Health Care Services Division
State of Louisiana
New Orleans, Louisiana

January 9, 2002

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
New Orleans, Louisiana

Management Letter
Dated December 7, 2001

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

January 9, 2002

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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December 7, 2001

MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
New Orleans, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2001, we considered the Medical Center of Louisiana at New Orleans' internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the medical center's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered the Medical Center of Louisiana at New Orleans' internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the medical center's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Medical Center of Louisiana at New Orleans is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The medical center's accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter on the Medical Center of Louisiana at New Orleans for the year ended June 30, 2000, we reported findings relating to inaccurate patient charges and inadequate controls over movable property. Those findings are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2001.

Inaccurate Patient Charges

For the fourteenth consecutive year, the Medical Center of Louisiana at New Orleans has not completed the development and implementation of effective procedures required to accurately record patient charges and timely process patient bills. Although most earned revenues are generated on a fixed amount or negotiated rate basis, an adequate system of internal control requires the recording of complete and accurate patient charges.

Except for self-pay patients, patient charges are not used as a basis to generate revenues. Most patient service revenues are earned from the treatment of patients covered by Medicare, Medicaid, and commercial insurance. Revenues from those programs are not generated by the patient charges system but are on a fixed amount or negotiated rate basis. Nevertheless, Medicare, Medicaid, and commercial insurance companies require summary and/or itemized billing information. For the purpose of testing the accuracy of those summary or itemized bills, the medical center's Coding and Revenue Enhancement Department was requested to audit 34 bills totaling $351,612. Those audits by the Coding Department revealed inaccuracies in 34 (100%) of the 34 bills. Thirty-three bills contained undocumented charges (overcharges) totaling $39,365 (11.20%). Also, undercharges or unbilled charges on 31 of the bills totaled $38,311 (10.90%).

In addition, 11 (32.35%) of the 34 bills examined were not produced timely. Initial billings were prepared in excess of 30 days following discharge, ranging from 32 days to 259 days after discharge. In a separate examination of Medicare and Medicaid inpatient charges, five (20.83%) of the 24 inpatient bills were not produced timely, ranging from 38 days to 70 days after discharge.

As a result of these deficiencies, management has no assurance that the patient accounting system accurately reflects charges for services performed nor that patient billings are timely generated.

Management of the medical center should establish policies and procedures that ensure accurate recording of patient charges and timely processing of patient bills. The chief executive officer generally concurred with this finding but commented that implementing the recommendation is not economically feasible because the error rate is only three tenths of one percent of total revenues. He added that implementing the recommendation can only be accomplished as funds are available for needed technology, training, and additional staff and that deficient departments have been identified. He also outlined a plan of corrective action (see Appendix A, pages 1-3).

Inadequate Controls Over Movable Property

For the fourth consecutive year, the Medical Center of Louisiana at New Orleans did not maintain adequate internal controls over movable property as prescribed by the commissioner of administration and Louisiana law. Louisiana Revised Statute (R.S.) 39:325 requires agencies to conduct an annual inventory of movable property and report any unlocated movable property to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code (LAC) 34:VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. R.S. 39:323 and LAC 34:VII.307 require that acquisitions be tagged and information forwarded to LPAA within 45 days of receipt of the movable property item(s). In addition, LAC 34:VII.311 states, in part, that property location shall be kept current. The following deficiencies in movable property records were observed:

- In its Certification of Annual Property Inventory dated June 30, 2001, the medical center reported for fiscal year 2001 that it was unable to locate movable property valued at $3.7 million, with $1.7 million (46%) of that amount consisting of electronic data processing equipment. In addition, movable property valued at $6.8 million was unlocated from the previous three years.

- In a review of 469 movable property items acquired and added to the movable property listing for the period January through June 2001, 131 items (27.93%) totaling $252,377 were not reported to LPAA within 45 days of receipt of the items. The items were reported to LPAA between 50 and 110 days after receipt.

- In an effort to physically inspect 30 movable property items, eight items (26.7%) totaling $54,417 were not found. Two items (6.7%) valued at $7,080 were traced to the medical center's unlocated property listing for fiscal year 2001, but the locations for the remaining six items (20%) valued at $47,337 are still unknown. In a separate physical test of 18 items, four (22.2%) did not have the correct location code.

In addition, LPAA completed a property and fleet compliance examination on May 17, 2001, and issued its audit report dated August 6, 2001. The report disclosed deficiencies similar to those discussed above. The report also revealed that the medical center is not forwarding monthly fleet vehicle (approximately 17 vehicles) mileage and maintenance information to the state fleet manager in accordance with LAC 34:XI.103.A.2.g.i (c).

Failure to locate, timely tag, and maintain current location code records of all movable property exposes the medical center to possible loss, theft, and misuse of its assets. In addition, unsubmitted fleet vehicle reports limit the state fleet manager's oversight responsibility in determining the cost-effectiveness of the medical center's transportation program.

The medical center should (1) continue its efforts to locate movable property; (2) improve its efforts to timely tag and report all movable property, including the current location; and (3) complete and forward fleet management information. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 4-5).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the medical center. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the medical center should be considered in reaching decisions on courses of action. The finding relating to the medical center's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the medical center and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

EB:JR:RCL:ss

[MCLNO01]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

LSUMC
HealthCare
Services
Division

October 3, 2001

Daniel G. Kyle, Ph.D., CPA
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Response to Legislative Auditor's Finding
Medical Center of Louisiana
Inaccurate Patient Charges

Dear Dr. Kyle:

I generally concur with the finding as presented, however, I believe that further information is necessary to provide clarity to the issue of accuracy of charges. Based on our analysis of revenue for fiscal year 2001, we determined that about 95 percent of our revenue is derived from Medicare and Medicaid. These two programs represents patient care revenues in excess of $361 million and are not dependent upon line item charges for reimbursement. The remaining five percent, or $20.5 million, was received from insurance companies; self-pay patients ($18 million) and other miscellaneous non patient care revenue ($2.5 million).

We reviewed your test and based upon the cumulative error rate developed, we estimated the potential effect on our total patient care revenues. Your analysis resulted in a negative variance of only three tenths of one percent. This indicates that the charges in our patient accounting system are, on average, 99.7 percent accurate. Applying your error rate to the total revenues affected by patient charges results in a projected error of only $54,000 ($18 million X .3 percent). Also, we are confident that the actual error is significantly less because (1) payments we receive from commercial insurance are based on negotiated rates below the actual charges, and (2) we receive only a small percentage of charges billed on self-pay accounts as most are transferred to bad debt. Therefore, we believe that the additional costs to implement your recommendation would not be economically feasible.

Overcharges and undercharges of $68,120, out of the total $77,675, has been identified as pertaining to three departments, Pharmacy, Respiratory, and Operating Room. Pharmacy problems had been identified in May 2001 as a communication problem between Physicians, Nursing Services and Pharmacy. We are installing the Pyxis system that will eliminate many of these problems. The problems in Respiratory have been attributed to lack of documentation in the patient's medical record and lack of personnel to key charges into the patient bill in a timely manner. Meetings have been held between Respiratory and Revenue Enhancement to resolve these issues. The need for timely documentation and keying of charges has been addressed by Respiratory department with inservice training of employees on the need for documentation and the addition of more support in keying charges within 24 hours of service. The Operating Room undercharge of $16,900 was on one patient that had two accounts open in the system at the time. This problem is being address by requiring the Operating Room to pull patient information by account number not medical record number and to enter charges within 24 hours of service.

Audit concerns about timely filing of patient claims are attributable to problems in our Coding department. Last year 67% (8 of 12) of our experienced RN coders were transferred out of the coding department. Shortly after that, the Director of Coding resigned. In addition to the staffing problems the Medical Records department is on an older version of Softmed, our medical record and coding software, this has caused additional delays in coding. These problems have caused unbilled days to increase to between 35-40 days which is not acceptable. We have had great difficulty in hiring Certified Coding Specialist, but have made some headway in the last few months. We are in the process of upgrading the Softmed system so that Medical Records and Coding will be using the same system, which will greatly increase our ability to code claims in a timely manner. We are in the process of outsourcing some of our coding backlog. We are confident that with these changes we will substantially reduce the time required to produce patient bills.

Implementing your recommendations can only be accomplished, as funds are available for needed technology, training and additional staff. These funds have not been available in the past. The Medical Center of Louisiana, however, is dedicated to the production of accurate and timely bills. As funds are available, we intend to make every prudent and cost effective improvement in the process, including the areas of technology enhancement, in-service training for both healthcare and administrative support staff, and increasing the use of chart and bill audits.

Thank you for the opportunity to include our comments as part of your audit process. Please contact me if you have questions or concerns regarding this response.

Respectfully,

John S. Berault
Chief Executive Officer

cc:

Ken Laney
Ed Booker

LSU Health Sciences Center

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

September 13, 2001

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Response to the Legislative Auditor Findings
Medical Center of Louisiana at New Orleans
Inadequate Controls Over Movable Property

Dear Dr. Kyle:

Please find below the Medical Center of Louisiana at New Orleans management response to the fiscal year 2000-2001 audit finding relating to inadequate controls over movable property.

Management concurs with the three audit findings:

1. As of September 7, 2001, Property Accounting has found $215,388 of the 3.7 million reported as 2001 discrepancies to Louisiana Property Assistance Agency. The Property Accounting staff will continue to work diligently to locate missing movable property.
2. The LSU System has implemented a financial software package for MCLNO this fiscal year called PeopleSoft. PeopleSoft will allow Property Accounting to identify and report all movable equipment acquisitions in a timely manner. The Asset Management module within PeopleSoft will interface with Purchasing, Central Receiving and Accounts Payables in routing information back to Property Accounting that a new piece of movable equipment has been acquired. Therefore, vital information will be routed to Property Accounting from three stages, (create, receipt and payment) of a new acquisition.
3. Three of the six movable property items totaling $6,552 were subsequently found since the audit. The remaining three movable property items totaling $40,765 will appear on the 2002 discrepancy list. An ongoing effort by the Property Accounting staff to locate all discrepancies will continue throughout the fiscal year. Of the four that did not have the correct location code, all updates were immediately process in LPAA AM18 system to match the physical location. In order to minimize this problem, all updates to movable equipment records will be done weekly.

In order to ensure that MCLNO tags, records and updates LPAA AM18 location codes for all movable property items timely, the following steps will be taken:

1. Effective August 20, 2001, MCLNO hired a Property Control Manager.
2. Approved funding for four Clerk 3 positions as of September 4, 2001. Waiting for final approval from Baton Rouge. It is anticipated that these positions will be filled by October 1, 2001.
3. Upgrade Protégé asset tracking software with new hardware. This will allow us to input room locations of an asset instead of a general floor location. Maintaining accurate dual database systems for MCLNO and LPAA is a priority. It is anticipated to be fully functional by October 2001.
4. Start, complete and certified our 2002 movable equipment inventory from November 2001 through June 2002.

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These actions will be the responsibility of Bernie Hebert, CFO-MCLNO, the Controller-MCLNO, to be hired and Philip H. Baldwin, Jr., Property Control Manager-MCLNO.

Communication with our cost centers, additional staffing and management enforcement of MCLNO policies and procedures should resolve this fourth year finding to the Legislative Auditor's satisfaction.

Respectfully,

John S. Berault, M.S.P.H.
Chief Executive Officer
Medical Center of Louisiana

cc: Bernie Hebert, CFO
Ken Laney, Internal Audit Director
Henry Wallace, Accounting Manager
Philip Baldwin, Property Manager
Ed Booker, Auditor-In-Charge
John Gilbeaux, LPAA